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C O N F I D E N T I A L SECTION 01 OF 02 ROME 000252

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TAGS: [PREL](#) [KNNP](#) [EFIN](#) [ETRD](#) [IT](#) [IR](#)
SUBJECT: ITALY REDUCES EXPORT CREDITS TO IRAN, BUT WORRIES
ABOUT GERMAN COMPETITION

REF: 08 ROME 1445

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Classified By: Economic Minister Counselor Tom Delare
for reasons 1.4 (b) and (d)

11. (C) Summary: Over the past three months, Italy's Export Credit Agency (SACE) has reduced its exposure in the form of insurance guarantees on trade and investment to Iran from 1.5 billion euros to about 1.3 billion euros as existing debts have been repaid. SACE's managers have chosen not to pursue new Iran business because of its risk profile, claiming, at the same time, not to have been pressured by Italian policy makers to adopt this posture. SACE judges its current default rate of 1-2 percent to be "shockingly rosy" in the current global climate, but is concerned that Italian exporters are suffering because SACE's German equivalent is able to operate with stronger government support, unconstrained by traditional risk versus reward calculus. End Summary.

Reducing Credits to Iran for Technocratic -- vice Political
-- Reasons

12. (C) On 23 February SACE Chief Economist Emanuele Baldacci and SACE Senior Manager for International Affairs Antonio Taddei told Econoff that over the past three months the Italian export credit agency and foreign investment promotion and insurance arm had reduced its exposure from 1.5 billion euros to 1.3 billion euros. Our contacts further noted that SACE, a public-private entity, continued on a glide path for reducing its Iranian exposure that would have it completely divested by 2012 (This is consistent with a conversation at SACE last November. See Ref A). Baldacci explained that this decision, reaffirmed by SACE's board on 21 February, was based on the risk/reward profile of Iran and that senior Italian politicians had not been involved. Nevertheless, SACE remains officially open to business with Iran, with a ceiling of 500 million euros. He asserted, nonetheless, that no new business is currently under consideration. (Note: Our colleagues at ConGen Milan, citing local banking sources, assert that some rollover of guarantees may be taking place. End Note.) However, Baldacci said that formally closing Iran would be a bilateral political -- vice technocratic-- decision. He deemed this both unlikely

and unwise as it could adversely affect SACE's repayments from Iran. To date, he characterized those as "stellar." However, Baldacci volunteered, that if the EU made a decision to close lending/insurance windows, SACE would have no choice to but comply. It would, however, expect its chances of being repaid to be less adversely affected by multilateral policy, than by a similar unilateral policy.

13. (C) Despite the most challenging global economic climate in recent memory, Baldacci said SACE had not experienced any significant increase in its default rate of about 1-2 percent, which he deemed "shockingly rosy." As an entity commissioned by the government, but managed like a private company, SACE is considering increasing its risk profile to help Italian businesses, Baldacci said. Taddei added that if banks back away from the market for political risk insurance and project finance, SACE may fill the void for creditworthy companies. Both Baldacci and Taddei were insistent that the acid test for SACE's success was not increased Italian trade, but rather the consistent ability to turn a profit.

Perils of 'Unfair' German Competition and Strong
Environmental Protections

14. (C) In the specific case of Iran, Baldacci claimed that his German Export Credit Agency counterparts have an unfair advantage because they are more closely tied to the German government. In practice this means they are subject to political interference, but that any mistakes

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and losses would be assumed by the German taxpayer, he said. Baldacci claimed that SACE lacks that luxury and asked rhetorically, "When we extend credits that aren't repaid, who will assume our losses? The Italian government?" (Comment: With a Debt/GDP ratio expected to hit 110% this year, SACE's claim that the Italian government might not be willing or able to support a rescue seems credible. End Comment.) Baldacci also expressed concern about Italian businesses being adversely affected by safety, environmental and employment laws at the national and EU level when competing in third countries with Chinese companies that face no analogous restrictions.

15. (C) Baldacci said that Libyan Leader Muammar Al-Qadhafi's recent invitation to Italian businessmen confirmed his point about an un-level playing field. According to Baldacci, the Chinese have already secured a lucrative contract to build railroads there following Chinese labor and environmental standards, while the Russians have obtained other unspecified infrastructure projects. Baldacci believed that EU safety and environmental standards rendered Italian firms less competitive for infrastructure projects in Libya. Consequently, the Libyan leader invited Italians to invest in Small and Medium Sized Enterprises, a far less promising area in Baldacci's view. Baldacci said that notwithstanding Libya's low tax regime, the lack of a convertible currency remained problematic, and he judged less than credible the Libyan government's pledge to "never nationalize your property. But if we do, we'll do so at a fair market price."

16. (C) Comment: SACE continues to do the right thing -- reduce its exposure to Iran -- but seemingly for commercial, rather than political, reasons. Its unwillingness to publicize its absence from the market for new Iranian risk insurance is unfortunate, given our need of tools to pressure the Iranian nuclear program. Absent high level US engagement SACE's status quo is likely to be maintained. Baldacci's statement about EU-level sanctions

may also offer an avenue for productive compromise. An EU-level measure to strengthen Iran sanctions would circumvent the zero-sum hue that national-level discussions on the same topic often exhibit, whereby fear of losing export markets hinders unilateral action. The Italian government remains reluctant to lead with its own bilateral Iran sanctions, lest it disadvantage its companies, particularly with respect to their German competitors. End Comment.
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